isavia

# Consolidated Financial statement 2020

# Isavia ohf.

Consolidated
Financial Statements

# 2020

These consolidated financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Isavia ohf.
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220 Hafnarfjörður
id.no. 550210-0370

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# 2020

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# Statement by the Board of Directors and Managing Director

Isavia ohf. ("the consolidated company") was established at the beginning of 2010 with the merger of Flugstoðir ohf. and Keflavíkurflugvöllur ohf. Isavia ohf. is a state-owned limited company and operates on the basis of Act No. 2/1995 on limited companies. Its domicile and venue are in Hafnarfjörður.

On 1 January 2020, Isavia ohf. was divided up. The operations of air traffic control and domestic airports were moved into separate companies. The air traffic control part was transferred to the subsidiary Isavia ANS ehf., and the operation of domestic airports was transferred to the subsidiary Isavia Innanlandsflugvellir (Domestic airports) ehf. The state continues to own and maintain domestic airports. The parent company Isavia owns and operates Keflavík Airport.

The Treasury is the only shareholder of the company. The consolidated accounts for 2020 are drawn up in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union as well as with supplementary requirements in the Annual Accounts Act.

### Operations in 2020

According to the statement of income and expenditure of Isavia ohf., total operating income in 2020 amounted to ISK 14.737 million (2019: ISK 38.454 million). The loss for the year amounted to ISK 13.178 million (2019: ISK 1.199 million profit). The negative exchange rate difference amounted to ISK 3.800 million (2019: ISK 560 million). On 31 December 2020, the total assets of the consolidated group amounted to ISK 80.477 million (2019: ISK 80.643 million). Equity at the end of 2020 amounted to ISK 27.259 million (2019: ISK 36.466 million), and the equity ratio for the consolidated group was 33.9% at the end of the year (2019: 45.2%). Wages and other staff costs amounted to ISK 14.654 million (2019: ISK 18.038 million), and the average number of staff in 2020 was 1.081 (2019: 1.360).

At the end of last year, the ruling of the Taxation Reassessment Committee was decided in favour of the company in its dispute with the Director of Internal Revenue regarding the handling of filed value added tax returns for the period September 2016 to December 2018. Reference is made to note 16 to the annual accounts regarding this issue.

Attention is called to the write-down of claims, including the write-down due to the collapse of WOW air in 2019. Reference is made to note 16 to the annual accounts regarding this issue.

The Board proposes that the loss of the year be carried over to next year and in other respects refers to the consolidated annual accounts regarding changes in the assets of the company.

### Share capital

At the end of the year, the share capital amounted to ISK 9.559 million (2019: ISK 5.589 million). The share capital was increased by ISK 3.970 million during the year.

### Governance

The Board of Isavia has set operating rules for itself that, inter alia, define the main tasks and areas of competence of the Board and the CEO. The rules are accessible on the website of the company. The rules state, inter alia, that the Board of the company shall adhere to the guidelines on corporate governance issued by the Icelandic Chamber of Commerce, SA Association of Icelandic Enterprise and Nasdaq OMX Iceland.

In accordance with the above guidelines on good governance and the Annual Accounts Act, the Board of Isavia has prepared a statement of governance that can be accessed on the company's website as well as in Appendix I to the annual accounts.

The Board of Isavia consists of five members, two women and three men. The gender ratio is in accordance with laws stating that companies with more than 50 employees shall ensure that the ratio of each gender on the Board shall not be lower than 40%. There are two committees operating, the audit committee and the emoluments committee. These committees are entrusted with the task of improving working practices in areas under the auspices of the Board, thus improving the efficacy of the work of Board members. For further information, see the website of the company and Appendix I.

# Statement by the Board of Directors and Managing Director

### COVID-19

The year 2020 proved to be a challenge for Isavia. Early in the year, the operations of the company were deeply impacted by the COVID-19 pandemic when travel to and from Iceland was largely halted. For the year of 2020 as a whole, the number of passengers going through the airport declined by 81%. In the period April to December 2020, the decline was 93%. The operations and staff of the company were greatly strained by the pandemic. This called for much work to adjust the operations of the company to greatly changed circumstances. The owner of the company provided fresh share capital in June and again at the beginning of 2021. Both these share capital increases were intended to meet the loss incurred by COVID-19 and thereby enable the company to continue its investment in the infrastructure of Keflavík Airport for the future. Although the company was well poised to meet the effects of COVID-19, it is evident that there is still great uncertainty as to when travel restrictions in the world will be eased. The Board of the company believes that the operating ability of the company is ensured, especially in light of the share capital increase that took place at the beginning of 2021. Reference is made to note 24 to the annual accounts regarding this issue.

### Community responsibility and non-financial information disclosure

The activities of Isavia are subject to the provisions of the Annual Accounts Act regarding non-financial information disclosure. Isavia ohf. pursues a policy of community responsibility and has supported the UN Global Compact of 2016. The company thereby commits itself to pursue a policy and practice in pursuit of the ten criteria of the United Nations on human rights, labour, the environment and anti-corruption. Isavia supports the UN Global Goals on sustainable development and works on attaining its objectives.

The annual and community relations report of Isavia is issued according to an international standard of the Global Reporting Initiative along with special provisions applying to airports. The report explains the points of emphasis, objectives, key criteria and the progress of Isavia towards reaching increased sustainability. The report extensively covers issues of the environment and the community as well as economic issues.

Isavia turns in an annual and community report to the UN Global Compact and Global Reporting Initiative. The report is turned in for the fifth time in this manner. Further information on the non-financial issues of the company can be accessed in the annual and community report at isavia.is/arsskyrsla2020.

### The statement of the Board and CEO

The Board and the CEO confirm, to the best of their knowledge, that the consolidated accounts give a clear picture of the operating results of the consolidated group, its assets, liabilities and changes in liquidity in 2020.

In the opinion of the Board and the CEO of Isavia ohf., the accounting rules of the company are appropriate and the consolidated accounts give a clear overview of the development and achievements of the company, its risk management and the main areas of uncertainty in its environment.

The Board and CEO have reviewed and approved the consolidated annual accounts of the company for 2020 with their signatures and propose that the Annual General Meeting of the company approve the consolidated accounts.

Hafnarfjörður, March 11th 2021

## Board of Directors

Orri Hauksson
Chairman of the Board

Eva Pandora Baldursdóttir

Nanna Margrét Gunnlaugsdóttir

Matthías Páll Imsland

Valdimar Halldórsson

## Managing director

Sveinbjörn Indriðason

# The Auditor General's Report

**To the Board of Directors and Shareholders of Isavia ohf.**

**Expectations, role and responsibilities of the Auditor General**
The Auditor General operates based on Act no. 46/2016, on the Auditor General and the auditing of government accounts and the Code of Ethics set by the International Organization for Supreme Audit. The role of the Auditor General is to ensure that audits and controls are in accordance with Article 4 of the Act.

The Auditor General is responsible for the work of the Auditors, who work with the Icelandic National Audit Office and perform an audit based on the Act on Auditors and audit, Act on Financial statements and other general rules that they comply with according to International Standards on Auditing

The Audit was conducted in accordance with Act no. 46/2016 on the Auditor General and audit of state accounts and Act no. 94/2019 on Auditors and auditing.

The Icelandic National Audit Office, March 11, 2021.

Skúli Eggert Þórðarson,
The Auditor General

# INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors and Shareholders of Isavia ohf.**

**Opinion**
We have audited the consolidated financial statements of Isavia ohf. for the year ended December 31, 2020. The consolidated financial statements comprise the income statement, the balance sheet, the statement of changes in equity, statement of cash flows, notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Isavia ohf. as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Isavia ohf. and have conducted our work in accordance with Act no. 94/2019 on Auditors and auditing and Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statement.

**Other information**
In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

**Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements**

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Isavia ohf. ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for monitoring the preparation and presentation of the consolidated financial statements.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Icelandic National Audit Office, March 11, 2021

Hinrik Þór Harðarson
State Authorized Public Accountant

Birgir Finnbogason
State Authorized Public Accountant

# Consolidated income statement year 2020

| | Notes | Consolidation 2020 | 2019 |
|---|---|---|---|
| Operating revenues | 5 | 14.736.721 | 38.453.968 |
| Cost of goods sold | | (1.706.713) | (6.406.081) |
| Salaries and related expenses | 6 | (14.653.980) | (18.038.411) |
| Administrative expenses | | (347.946) | (540.490) |
| Other operating expenses | | (3.959.885) | (4.792.641) |
| Allowances for doubtful accounts | 16 | (204.895) | (1.900.909) |
| **Operating profit (loss) before depreciation** | | (6.136.698) | 6.775.436 |
| Depreciation and amortization | 10,11,12 | (3.916.827) | (3.869.281) |
| **Operating profit (loss)** | | (10.053.525) | 2.906.155 |
| Financial income | 8 | 121.305 | 274.563 |
| Financial expenses | 8 | (1.196.402) | (1.124.760) |
| Net exchange rate differences | 8 | (3.800.275) | (560.192) |
| **Profit (loss) before taxes** | | (14.928.895) | 1.495.766 |
| Income tax | 9 | 1.751.330 | (296.882) |
| **Profit (loss) for the year** | | (13.177.565) | 1.198.885 |

# Consolidated Statements of Financial Position December 31st 2020

| Assets | Notes | Consolidation 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 57.193.958 | 57.549.596 |
| Intangible assets | 11 | 4.611.584 | 4.736.573 |
| Right of use asset | 12 | 353.874 | 167.222 |
| Bonds | 14 | 79.843 | 116.587 |
| | | 62.239.260 | 62.569.978 |
| **Current assets** | | | |
| Inventories | 15 | 279.877 | 589.823 |
| Accounts receivables | 16 | 2.606.353 | 2.309.563 |
| Current maturities of long-term assets | 14 | 38.719 | 38.062 |
| Other receivables | 16 | 5.940.347 | 5.968.896 |
| Cash and cash equivalents | 16 | 9.372.336 | 9.166.641 |
| | | 18.237.633 | 18.072.985 |
| **Total assets** | | 80.476.893 | 80.642.963 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 17 | 9.559.063 | 5.589.063 |
| Statutory reserves | | 2.483.798 | 2.483.798 |
| Revaluation reserves | | 41.036 | 42.360 |
| Retained earnings | | 15.175.455 | 28.350.724 |
| Total equity | | 27.259.353 | 36.465.945 |
| **Non-current liabilities** | | | |
| Loans from credit institutions | 18 | 43.660.249 | 32.711.473 |
| Lease agreements | 12 | 274.360 | 111.548 |
| Deferred tax liabilities | 19 | 299.989 | 2.054.905 |
| | | 44.234.598 | 34.877.925 |
| **Current liabilities** | | | |
| Accounts payable | 20 | 1.630.291 | 2.336.079 |
| Current maturities of loans from credit institutions | 18 | 4.086.163 | 3.339.425 |
| Current maturities of lease agreements | 12 | 83.727 | 58.506 |
| Current tax liabilities | 9 | 3.888 | 380.618 |
| Other current liabilities | 20 | 3.178.873 | 3.184.464 |
| | | 8.982.941 | 9.299.092 |
| Liabilities | | 53.217.540 | 44.177.018 |
| **Total equity and liabilities** | | 80.476.893 | 80.642.963 |

# Consolidated Statement of Changes in Equity 2020

| | Share Capital | Statutory reserves | Revaluation reserves | Retained earnings | Total Equity |
|---|---|---|---|---|---|
| Opening balance at 1 January 2019 ..... | 5.589.063 | 2.483.798 | 43.684 | 27.150.904 | 35.267.449 |
| Depreciation of revaluation ..... | 0 | 0 | (1.324) | 1.324 | 0 |
| Translation differences ..... | 0 | 0 | 0 | (388) | (388) |
| Comprehensive income ..... | 0 | 0 | 0 | 1.198.885 | 1.198.885 |
| Balance at 31 December 2019 ..... | 5.589.063 | 2.483.798 | 42.360 | 28.350.724 | 36.465.945 |
| | | | | | |
| Opening balance at 1 January 2020 ..... | 5.589.063 | 2.483.798 | 42.360 | 28.350.724 | 36.465.945 |
| New share capital ..... | 3.970.000 | 0 | 0 | 0 | 3.970.000 |
| Depreciation of revaluation ..... | 0 | 0 | (1.324) | 1.324 | 0 |
| Translation difference ..... | 0 | 0 | 0 | 973 | 973 |
| Comprehensive income ..... | 0 | 0 | 0 | (13.177.565) | (13.177.565) |
| Balance at 31 December 2020 ..... | 9.559.063 | 2.483.798 | 41.036 | 15.175.455 | 27.259.353 |

No dividends were paid to shareholders for the year. Share capital has been fully paid.

# Consolidated Statement of Cash Flows 2020

| | Notes | Consolidation 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | | (10.053.525) | 2.906.155 |
| Depreciation and amortization | 10,11,12 | 3.916.827 | 3.869.281 |
| Accounting provision of current assets | 15,16 | 151.893 | 1.907.871 |
| Loss (gain) on disposal of assets | | (2.399) | 2.359 |
| Operating cash flow before changes in operating assets and liabilities | | (5.987.203) | 8.685.666 |
| Changes in inventories | 15 | 356.356 | 85.148 |
| Changes in operating assets | | (442.656) | 1.223.764 |
| Changes in operating liabilities | | (1.056.990) | 796.497 |
| Cash generated from operations | | (7.130.493) | 10.791.076 |
| Interest income received | | 250.643 | 323.154 |
| Interest expenses paid | | (613.542) | (1.129.026) |
| Income taxes paid | | (380.878) | (953.694) |
| **Net cash generated from operating activities** | | (7.874.270) | 9.031.510 |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment | 10 | (3.153.432) | (3.822.729) |
| Sale of property, plant and equipment | | 10.731 | 11.063 |
| Acquisition of intangible assets | 11 | (227.138) | (123.853) |
| Installments on bonds | 14 | 41.027 | 40.797 |
| | | (3.328.812) | (3.894.722) |
| **Financing activities** | | | |
| New long-term borrowing | 18 | 7.792.000 | 0 |
| Repayment of borrowings | 18 | (727.292) | (1.325.161) |
| Installments of leases | 12 | (62.222) | (57.755) |
| New share capital | | 3.970.000 | 0 |
| | | 10.972.486 | (1.382.916) |
| Net change in cash and cash equivalents | | (230.596) | 3.753.872 |
| Cash and cash equivalents at the beginning of the year | | 9.166.641 | 5.436.127 |
| Effect of foreign exchange rates | | 436.292 | (23.358) |
| Cash and cash equivalents at the end of the year | 16 | 9.372.336 | 9.166.641 |

# Notes

## 1. General information

Isavia ohf. (the Consolidation) was established in the beginning of 2010 with a merger between Flugstodir ohf. and Keflavíkurflugvöllur ohf. Isavia ohf. is a government owned private limited Company and complies with the Icelandic limited companies law No. 2/1995. The Company's domicile and venue is in Hafnarfjörður.

Isavia, along with its subsidiaries, operates and maintains all airports in Iceland, and it also operates air traffic control in the Icelandic aviation area. On 1 January 2020, Isavia ohf. was divided, whereby the operation of air traffic control and domestic airports was transferred to separate companies. The air traffic control part was transferred to the subsidiary Isavia ANS ehf., and the domestic airport part was moved to the subsidiary Innanlandsflugvellir ehf. Further information on the division is to be found under note 4.

The Consolidated Financial Statements of Isavia ohf. consist of the Parent Company and its subsidiaries. Companies within the consolidation are in addition to Isavia ohf., Isavia ANS ehf., Isavia Innanlandsflugvöllur ehf., Duty Free Store ehf., Tern Systems ehf., Domavia ehf. and Suluk ApS in Greenland.

## 2. Summary of Significant Accounting Policies

**Statement of compliance**

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the European Union by the end of the year 2020, new and revised and additional requirements in the Annual Accounts Act.

**Application of new and revised International Financail Reporting Standards (IFRS)**

No new accounting standards took place in year 2020. The Consolidation implemented few changes in older accounting standards, but those changes does not have significant impact on the Consolidations financial statements.

**The fundamental accounting principles**

The Consolidated Financial Statements are prepared on the basis of cost, except certain fixed assets are valued according to the revaluation method. An assessment of the fair value of financial assets and financial liabilities is provided in the notes below. The Condensed Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Consolidation. All amounts are in ISK thousands, unless stated otherwise.

The following is a summary of the consolidations main accounting policies.

**Consolidation**

The Consolidated Financial Statements include the Parent Company Financial Statements and the Financial Statements of the companies under its control (subsidiaries) at the reporting date. Control exists when the parent Company has legal right of decision over the investment, is at risk or has the right to receive variable advantage from the investment and with power of decision, can influence its proceeds from the investment.

The Consolidation is prepared in accordance with the acquisition price rule. When acquiring subsidiaries, assets and liabilities are measured at fair value at the acquisition date. If the purchase price is higher than the net asset after such an assessment, the difference is recognized as goodwill. The operating results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or until the date of disposal, as applicable.

Among the objectives of the consolidated financial statements is to disclose only the Consolidation's external income, expenses, assets and liabilities, therefore transactions within it are eliminated in the preparation of the financial statements. If appropriate, adjustments are made to the subsidiaries financial statements to align them with the Consolidations accounting policies.

**Risk management**

The Consolidation's general policy in risk management is to manage interest rate and foreign currency risk. The Consolidation has no currency swap contracts, options or derivatives outstanding at year-end. Special risk committee operates under mandate from Board of Directors and determines scope and nature on risk and profitability analysis for construction and projects which can have significant influence on income and financial position.

## 2. Summary of Significant Accounting Policies (continued)

**Revenue recognition**

*Revenue recognition*

The revenue recognition of the Consolidation reflects the consideration that the Consolidation expects to receive due to the sale of goods and services to the customer. The Consolidation records revenues when the control of the sold goods or services is transferred to the customer. In general, the Consolidation's invoices are made monthly as provided service for the relevant month, with the exception of the sale of the Duty Free Store that is recorded when the sale takes place.

*Air navigation - Isavia ANS ehf.*

The air navigation division handles air navigation services for domestic and international flights across large areas of the North Atlantic. The revenue of the division comes, e.g. from air navigation services to flight operators in North Atlantic on the basis of a Joint Finance agreement (international agreement), air navigation services on airspace and air navigation services at airports in

*Domestic airports - Isavia Innanlandsflugvellir ehf.*

The domestic airports system handles the operation and maintenance of all airports in Iceland apart from Keflavik airport. The largest part of revenue from domestic airports comes from a service agreement with the Ministry of Transport and Local Government, but other revenues consist of user charge and leasing of buildings. All buildings at airports in Iceland besides Keflavik airport are under control of the Icelandic state.

*Keflavik airport*

The organisation of Keflavík Airport is divided into commerce and development on one hand and services and operations on the other. Commerce and development deals with airlines and routes, business and marketing, the operation and investment in infrastructure along with airport development and improvements in the airport. The services and operations part deals with security, aviation protection, passenger services and the operation of the airport tower.

*Duty Free Store*

Revenue from Duty Free Store are mainly revenues from sales of goods, but other revenue of the Consolidation is for example advertising revenue.

*Other subsidiaries*

Revenue from other subsidiaries of Isavia ohf. are mainly revenues from sales of service and goods and from contracts and also other various revenues.

*Lease income*

Lease income from operating leases is recognized on a straight-line basis over the term of the lease. Costs directly related to leases and management of operating leases are added to the book value of the leased asset and are then expensed on a straight-line basis over the lease term. The Consolidation is not a party to financing leases as a lessor.

**Construction contracts**

When the status of a contract can be reliably assessed, income and expenses are recognized based on the percentage of accrued costs in accordance with the provisions of the contract on the reporting date. Changes to the components of the contract, the claim for compensation and bonus payments are recognized to the extent that the amount can be estimated reliably and is likely to arrive.

When the status of a contract cannot be reliably estimated, revenue is recognized in proportion to the accrued costs that are likely to be recovered. The cost of the construction contract is recognized as an expense in the period incurred.

When the loss of a construction contract is likely, the expected loss is recognized immediately.

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

## 2. Summary of Significant Accounting Policies (continued)

**Borrowing costs**

Interest income is recognized for the relevant period in accordance with the relevant principal and interest rate.

Borrowing costs arising directly from the acquisition, construction or production of assets that qualify for capitalization are capitalized as part of the asset up to the time when the asset is ready for use or sale. A qualifying asset is an asset that takes a considerable amount of time to get into a usable or viable condition.

Investment income from short-term investments related to the financing of capitalized assets is recognized as a deduction of capitalized capital costs.

All other financial expenses are recognized in the income statement during the period in which they are incurred.

**Income tax**

Income tax is calculated and recognized in the consolidated financial statements. Its calculation is based on pre-tax results, taking into account permanent discrepancies between taxable income and profit according to the annual accounts. The income tax rate is 20%. Expensed income tax consists of income tax payable and deferred income tax.

Income tax payable is an income tax that is scheduled to be paid next year due to taxable profits for the year as well as adjustments to income tax payable for previous years. Taxable profits may be other than accounting profits. Calculated income tax is based on the applicable tax rate at the reporting date.

Deferred income tax is due to the temporary difference between the balance sheet items in the tax settlement on the one hand and the annual accounts on the other, where the income tax base is based on other assumptions than its financial statements. Deferred income tax is not recognized for goodwill that is not tax deductible. Furthermore, deferred income tax is not recognized for investments in subsidiaries if it is considered that the Parent Company can control when the temporary difference is reversed, and it

Deferred tax liabilities are assessed on the balance sheet date and are recognized to the extent that it is probable to use offset taxable profits in the future.

Deferred tax is recognized in the income statement, unless it relates to items of equity, then it is recognized among equity.

**Property, plant and equipment**

Assets are listed among property, plant and equipment when the economic benefits associated with the asset are likely to benefit the Consolidation and the cost of the asset can be reliably estimated. Fixed assets are recognized using the cost method. Under the cost method, property, plant and equipment are recognized at original cost less accumulated amortization and impairment. The cost of property, plant and equipment consists of the purchase price and all direct costs of bringing the property into a viable state

Upon the merger of Flugfjarskipta ehf. and Isavia ohf. the properties of the aforementioned company were revalued as the market price of that company's real estate was considered to be significantly higher than the book value. The revalued price is based on the estimated sales price confirmed by the appraisers. The valuation change is recognized in a special revaluation account among equity and on income tax liability.

Depreciation is recognized systematically over the estimated useful life of the asset, taking into account the expected residual value. Estimated utilization time and depreciation methods are reassessed at the end of each accounting period.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets.

Gains or losses arising from the sale of property, plant and equipment are the difference between the sale price and the book value of assets at the date of sale and are recognized in the income statement, profit from sales and other sales and other expenses. On the sale of revalued property, plant and equipment, the revaluation is recognized in retained earnings.

The general and special cost of borrowing directly attributable to the procurement, construction and production of an asset is booked as an asset at the time necessary to bring the asset into a remunerative state. Qualifying assets are assets that need time to become remunerative. Other borrowing costs are expensed in the period incurred.

## 2. Summary of Significant Accounting Policies (continued)

**Intangible assets**

Intangible assets are capitalized when it is probable that future economic benefits associated with the asset are likely to benefit the Consolidation and the cost of the asset can be reliably estimated. Among the intangible assets is software. These assets are recognized at cost less accumulated amortization and impairment losses. Depreciation is recognized systematically over the estimated useful life of the asset. Estimated useful lives and depreciation methods are reassessed at the end of each accounting period.

Research costs are expensed in the period for which they are incurred. Development costs are capitalized only if all the following conditions are met

- The Consolidation has the technical ability to complete the product development in a marketable state
- The intension to complete the intangible asset and use or sell
- The Consolidation demonstrates its potential to sell the product
- The Consolidation shows how the product will generate future revenue
- The Consolidation has sufficient technology and resources to complete development and sales
- Development expenditure can be measured reliably

Capitalization of development costs is only allowed when all the above conditions are met. Development costs that do not qualify are expensed in the period in which they accrue. After initial registration, development costs are measured at cost less accumulated depreciation and impairment.

Intangible assets resulting from the merger of the companies are only accounted for if they are distinctive from goodwill. At the initial registration they are recognized at cost, but with later assesments they are stated at cost less accumulated depreciations and impairment losses.

**Leases**

The Consolidation assesses whether a contract is or contains a lease, at inception of the contract. The Consolidation recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Consolidation recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Consolidation uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the excercise price of purchase options if the Consolidation expects to excercise the option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Consolidation remeasures the lease liability if the lease term has changed, when lease payments changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a seperate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Consolidation expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Consolidation has used this practical expedient.

## 2. Summary of Significant Accounting Policies (continued)

**Impairment**

At the end of each reporting period, the Consolidation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If an indication of impairment occurs, the recoverable amount of the asset is assessed in order to determine how extensive such impairment is.

The recoverable value is either the net realizable value or the value in use of an asset, whichever is higher. For the purpose of estimating the value in use, expected cash flow has been recognized at present value using the interest rate relevant to the financing of such an asset, taking into account tax. When the recoverable value of individual assets cannot be assessed, the Consolidation assesses the recoverable value of the cash-generating unit to which the asset belongs.

If the recoverable value of an asset or cash-generating unit is lower than the carrying amount, the carrying amount of the asset is reduced to its recoverable value. Impairment of cash-generating units is recognized initially as a decrease in related goodwill, and then at a proportional decrease in the carrying amount of other assets of the entity. Impairment losses are recognized in the income statement.

If previously recognized impairment no longer applies, the carrying amount of the asset may rise again, but not in excess of the original cost. Impairment of goodwill is not reversible.

**Inventories**

Inventories are stated at the lower of cost or net realizable value, after taking obsolete and defective goods into consideration. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

**Cash and cash equivalents**

Cash and cash equivalents cover cash on hand, bank deposits and other short-term investments easily converted to cash and with a maturity of up to three months. Bank overdrafts are shown amongst short-term liabilities in the balance sheet.

**Provisions**

Provisions are recognized when the Consolidation has a present obligation as a result of a past event, and it is probable that the Consolidation will be required to settle that obligation.

**Financial assets**

Financial assets are recognized at fair value on initial recognition in accounting. When financial assets are not measured at fair value through profit or loss, all direct transaction costs are expensed to increase their value at initial recognition in accounting. IFRS 9 divides financial assets into two categories, on the one hand, financial assets are recorded at amortized cost and, on the other hand, financial assets at fair value. The Consolidation records all its financial assets at amortized cost.

*Financial assets at amortized cost*

Financial assets that are due for maturity and contractual payments on set dates consists only of installments of principal and interest, shall be recorded at amortized cost unless the instrument is defined at fair value through profit or loss in accordance with fair value allowance. Such assets are initially recognized at fair value plus any related cost. After initial recognition, such financial assets are measured at amortized cost based on effective interest, net of impairment. The Consolidation financial assets valued at amortized cost are bonds, accounts receivable, other short-term receivables and cash.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized based on the effective interest rate for all financial instruments other than those defined as financial assets at fair value through profit or loss

## 2. Summary of Significant Accounting Policies (continued)

*Investments held to maturity*

Financial assets are classified as financial assets intended to be held to maturity when the Consolidation has investments, i.e. bills or bonds with the intent and the ability to hold to maturity. When applicable, investments held to maturity are recognised at amortized cost, using effective interest method less any impairment losses.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*

Impairment model IFRS 9 is based on the expected loan loss, which is a change from the previous standard IAS 39, which only required that loan losses be recognized as a result of past events. The Consolidation's financial assets that fall within the scope of the impairment model are debt securities, trade receivables, other short-term receivables (apart from capital gains tax, VAT receivable

When assessing expected loan losses for accounts receivable, the Consolidation uses a simplified approach. This approach requires that the Consolidation assess allowance for doubtful accounts that is equal to the expected loan losses during the life of the receivables. The Consolidation's accounts receivable is divided into categories according to the number of days that they are due. In assessing a fixed allowance for doubtful accounts ratio for each category, the historical loss history of the Consolidation is taken into account, adjusted for future economic development expectations if needed. The Consolidation conducts the evaluation down to individual customers or group of customers if the experience shows a significant difference in the loss pattern for certain customers or groups of customers. In some cases, this may result in a deviation from the estimated percentage to individual customer groups. See the detailed discussion of expected loan losses for accounts receivable in note 15.

At each reporting date it is examined whether there is objective evidence of impairment of financial assets. A financial asset is impaired if there is objective evidence that one or more events that have occurred will affect the expected future cash flow of the asset and that impairment can be reliably estimated. The Consolidation recognizes specific allowans for doubtful accounts for financial assets where there is objective evidence of impairment.

Changes in the impairment contribution of a financial asset to a provision are recognized in the income statement during the period in which the measurement is carried out. Impairment is reversed if the reversal can be objectively linked to an event that occurred after the impairment was recognized.

*Derecognition of financial assets*

The Consolidation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

**Financial liabilities and equity instruments**

*Financial liabilities*

Other financial liabilities, including liabilities to financial institutions, are initially measured at fair value less transaction costs. For subsequent assessments, they are recognized at amortized cost based on effective interest.

*Derecognition of financial*

The Consolidation derecognizes financial liabilities when, and only when, the Consolidation's obligations are discharged, cancelled or they expire.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In preparing of the Consolidated Financial Statements, managers must, in accordance with International Financial Reporting Standards, make decisions, assess and draw conclusions that affect assets and liabilities on accounting date, disclosure information and income and expenses. The assessment and conclusions are based on experience and various other factors that are considered relevant and form the basis of the decisions made on the book value of assets and liabilities that are not otherwise available. Actual value may differ from management's estimates. Accounting estimate consists of an assessment of the life of assets and allowance for doubtful accounts of the trade receivables and inventories, see note no. 10, 11, 15 and 16.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

## 4. Changes within the consolidation from January 1st 2020

On 1 January 2020, the parent company Isavia ohf. was divided by transferring air traffic control and the operation of domestic airports into separate companies. The operating part of air traffic control was transferred to the subsidiary Isavia ANS ehf., and the operation of domestic airports to Isavia Innanlandsflugvellir ehf. The object of the transfer was to increase clarity by separating different operating parts of the company.

| | Isavia ohf. 31.12.2019 parent company | Moved to Isavia ANS ehf. | Moved to Isavia Innanlands-flugvalla ehf. | Isavia ohf. 1.1.2020 parent company |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 57.277.484 | 3.787.931 | 1.412.045 | 52.077.507 |
| Intangible assets | 4.639.852 | 518.757 | 18.446 | 4.102.648 |
| Right of use asset | 120.146 | 0 | 9.022 | 111.124 |
| Holdings in subsidiaries | 565.293 | 97.213 | 0 | 468.080 |
| Long-term receivables with subsidiaries | 4.714.009 | 0 | 0 | 4.714.009 |
| Bonds | 116.587 | 116.587 | 0 | 0 |
| | 67.433.371 | 4.520.488 | 1.439.513 | 61.473.369 |
| **Current assets** | | | | |
| Accounts receivables | 1.351.533 | 107.168 | 114.929 | 1.129.436 |
| Receivables with subsidiaries | 494.132 | 20.827 | 0 | 473.305 |
| Current maturities of long-term assets | 38.062 | 38.062 | 0 | 0 |
| Other receivables | 5.668.791 | 493.564 | 9.862 | 5.165.365 |
| Cash and cash equivalents | 8.540.862 | 950.000 | 550.000 | 7.040.862 |
| | 16.093.381 | 1.609.621 | 674.792 | 13.808.969 |
| **Assets** | 83.526.752 | 6.130.109 | 2.114.305 | 75.282.338 |
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Share capital | 5.589.063 | 310.000 | 51.850 | 5.227.213 |
| Statutory reserves | 2.483.798 | 77.500 | 12.963 | 2.393.336 |
| Revaluation reserves | 42.360 | 0 | 0 | 42.360 |
| Retained earnings | 27.551.153 | 113.944 | 383.632 | 27.053.576 |
| | 35.666.374 | 501.444 | 448.444 | 34.716.485 |
| **Non-current liabilities** | | | | |
| Loans from credit institutions | 32.711.473 | 0 | 0 | 32.711.473 |
| Liabilities to subsidiaries | 4.714.009 | 3.594.592 | 1.119.417 | 0 |
| Lease agreements | 97.022 | 0 | 9.171 | 87.851 |
| Deferred tax liabilities | 2.016.711 | 134.441 | 186.456 | 1.695.814 |
| | 39.539.216 | 3.729.033 | 1.315.044 | 34.495.139 |
| **Current liabilities** | | | | |
| Accounts payable | 1.823.994 | 853.641 | 145.539 | 824.814 |
| Current maturities, loans from credit institutions | 3.339.425 | 0 | 0 | 3.339.425 |
| Current maturities of lease agreements | 24.826 | 0 | 82 | 24.743 |
| Liabilities to subsidiaries | 91.589 | 91.589 | 0 | 0 |
| Current tax liabilities | 295.291 | 0 | 0 | 295.291 |
| Other current liabilities | 2.746.037 | 954.402 | 205.194 | 1.586.441 |
| | 8.321.162 | 1.899.632 | 350.816 | 6.070.714 |
| **Equity and liabilities** | 83.526.752 | 6.130.109 | 2.114.305 | 75.282.338 |

## 5. Revenues

| The consolidated composition of revenues, is specified as follows | 2020 | 2019 |
|---|---|---|
| Revenue from sales | 3.339.261 | 12.968.971 |
| Revenue from services | 10.182.332 | 20.801.976 |
| Revenue from long term assets | 1.215.129 | 4.683.021 |
| | 14.736.721 | 38.453.968 |

Revenue from long term assets consist from revenues of assets, land and equipment. Within revenues from long term assets are rental revenues that fall under IAS 17 Rental Contracts. Other revenues above are within IFRS 15 Revenues from contracts with customers. Further description of revenues and timing of the consolidation's revenues can be found in Note 2.

## 6. Salaries and related expenses

| | 2020 | 2019 |
|---|---|---|
| Salaries | 11.803.523 | 13.991.002 |
| Contribution to defined contribution plans | 1.926.676 | 2.173.623 |
| Payroll taxes | 876.016 | 1.046.855 |
| Salary-related expenses | 217.419 | 238.530 |
| Additional contribution to pension fund and changes in vacation obligation | 119.879 | 318.157 |
| Capitalized employment expenses | (717.096) | (376.632) |
| Contractor payments | 465 | 718 |
| Other employee expenses | 427.099 | 646.160 |
| | 14.653.980 | 18.038.411 |
| | | |
| Average number of employees | 1.081 | 1.360 |

Total salarie payments and the counter-contribution to pension funds for the CEO of Isavia ohf. amounted to ISK 41.6 million, compared to ISK 39.2 million in 2019. The CEO of the company assumed his present position in the middle of 2019. In 2020, total payments and counter-contributions to pension funds to the three Directors of the consolidated group, the Directors of subsidiaries and Directors of the parent company amounted to ISK 316.8 million, compared to ISK 370.9 million the year before. Separation and closure settlements with Directors stepping down the year before largely explain the difference between years.

## 7. Fees to auditors

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Audit | Other service | Audit | Other service |
| Deloitte ehf. | 10.347 | 12.852 | 23.855 | 47.512 |
| The Icelandic National Audit office | 17.546 | 515 | 8.312 | 0 |
| | 27.892 | 13.367 | 32.167 | 47.512 |

Other services include the cost of accounting, tax service and assistance on tax return. Included in other service for the year 2020 are ISK 3 million due to cost of splitting up the parent company and ISK 7 million (year 2019: ISK 43 million) arising from projects that are unrelated to accounting.

## 8. Financial income and expenses

**Financial income**

| | 2020 | 2019 |
|---|---|---|
| Interest on bank deposits | 67.012 | 146.422 |
| Interest revenue on investments held to maturity | 6.926 | 11.414 |
| Other interest revenue | 47.368 | 116.727 |
| | 121.305 | 274.563 |

**Financial expenses**

| | 2020 | 2019 |
|---|---|---|
| Interest expense and indexation | (1.165.559) | (1.048.417) |
| Debt collection fee | (28.362) | (74.129) |
| Interest on late payments | (2.481) | (2.215) |
| | (1.196.402) | (1.124.760) |

**Net exchange rate differences**

| | 2020 | 2019 |
|---|---|---|
| Net exchange rate differences | (3.800.275) | (560.192) |

## 9. Income tax

Income tax has been calculated and recorded in the Financial Statements; the amount charged in the Income Statement is ISK 1.751 million. Income tax payable in the year 2021 is ISK 3,9 million. In year 2019 income tax charged in the Income Statement was ISK 296,9 million and income tax payable in year 2020 was ISK 380,6 million.

The effective tax rate is specified as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Profit before taxes | (14.928.895) | | 1.495.766 | |
| Tax rate | (2.985.779) | 20,0% | 299.153 | 20,0% |
| Other changes | 5.815 | (0,0%) | 0 | 0,0% |
| Other changes due to taxable loss | 1.228.634 | (8,2%) | (2.272) | (0,2%) |
| Income tax according to Income statement | (1.751.330) | 11,7% | 296.882 | 19,8% |

Other changes due to tax loss are due to an income tax carryover created by the companies in the group but not entered into the accounts.

## 10. Property, plant and equipment

| | Buildings and artwork | Aprons and car parks | Control systems | Other assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2019 | 35.665.140 | 18.510.762 | 3.976.041 | 15.732.489 | 73.884.432 |
| Additions | 1.751.582 | 661.642 | 79.869 | 1.329.637 | 3.822.729 |
| Disposals | 0 | (35.593) | (274.394) | (175.663) | (485.650) |
| Sold | 0 | 0 | 0 | (29.818) | (29.818) |
| Balance at 1 January 2020 | 37.416.722 | 19.136.810 | 3.781.516 | 16.856.645 | 77.191.693 |
| Additions | 1.476.657 | 951.773 | 5.282 | 719.720 | 3.153.432 |
| Disposals | (163.359) | (766.276) | (787.182) | (310.456) | (2.027.273) |
| Sold | 0 | 0 | 0 | (25.119) | (25.119) |
| Balance at 31 December 2020 | 38.730.021 | 19.322.307 | 2.999.616 | 17.240.790 | 78.292.734 |
| **Accumulated depreciation** | | | | | |
| Balance at 1 January 2019 | 7.949.850 | 2.472.383 | 1.603.888 | 4.662.315 | 16.688.437 |
| Charge for the year | 968.453 | 786.783 | 337.282 | 1.363.187 | 3.455.706 |
| Disposals | 0 | (35.593) | (274.394) | (175.663) | (485.650) |
| Sold | 0 | 0 | 0 | (16.395) | (16.395) |
| Balance at 1 January 2020 | 8.918.303 | 3.223.573 | 1.666.777 | 5.833.444 | 19.642.097 |
| Charge for the year | 970.428 | 793.896 | 327.171 | 1.409.243 | 3.500.738 |
| Disposals | (163.359) | (766.276) | (787.182) | (310.456) | (2.027.273) |
| Sold | 0 | 0 | 0 | (16.786) | (16.786) |
| Balance at 31 December 2020 | 9.725.372 | 3.251.194 | 1.206.767 | 6.915.446 | 21.098.776 |
| **Book value** | | | | | |
| Book value at beginning of year | 28.498.419 | 15.913.237 | 2.114.739 | 11.023.201 | 57.549.596 |
| Book value at year-end | 29.004.648 | 16.071.114 | 1.792.850 | 10.325.344 | 57.193.958 |

Estimated useful lives of fixed assets are as follows:

| | |
|---|---|
| Buildings and artwork | 7-100 years |
| Aprons and car parks | 5-50 years |
| Fixtures and machinery | 3-20 years |
| Other assets | 3-20 years |

Information about the revalued properties in year-end:

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Revalued book value | 103.715 | 106.711 |
| Impact of the special revaluation | (50.040) | (51.654) |
| Book value without impact of revaluation | 53.675 | 55.057 |

The assessment- and insurance value for the Consolidation's assets is itemized as the following:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Assessment value | Insurance value | Assessment value | Insurance value |
| Buildings and sites | 29.625.906 | 59.954.212 | 28.972.641 | 56.038.659 |
| Machinery and equipment, asset insurances | | 25.468.651 | | 18.428.384 |
| Other insurances | | 721.500 | | 750.822 |
| Halt insurance | | 15.592.659 | | 20.768.660 |

Isavia ohf. and subsidiaries have common insurances.

## 11. Intangible assets and amortization

| Consolidation | Usage agreement on facilities | Usage agreement on runways | Software and development cost | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2019 | 477.035 | 5.706.000 | 1.181.224 | 7.364.259 |
| Additions | 0 | 0 | 123.853 | 123.853 |
| Disposals | 0 | 0 | (90.565) | (90.565) |
| Balance at 1 January 2020 | 477.035 | 5.706.000 | 1.214.512 | 7.397.547 |
| Additions | 0 | 0 | 227.138 | 227.138 |
| Disposals | 0 | 0 | (98.912) | (98.912) |
| Balance at 31 December 2020 | 477.035 | 5.706.000 | 1.342.739 | 7.525.774 |
| **Amortization** | | | | |
| Balance at 1 January 2019 | 159.055 | 1.902.513 | 337.516 | 2.399.084 |
| Charge for the year | 15.899 | 190.174 | 146.381 | 352.455 |
| Disposals | 0 | 0 | (90.565) | (90.565) |
| Balance at 1 January 2020 | 174.954 | 2.092.688 | 393.333 | 2.660.974 |
| Charge for the year | 15.899 | 190.174 | 146.054 | 352.127 |
| Disposals | 0 | 0 | (98.912) | (98.912) |
| Balance at 31 December 2020 | 190.853 | 2.282.862 | 440.475 | 2.914.189 |
| **Book value** | | | | |
| Book value at beginning of year | 302.081 | 3.613.312 | 821.180 | 4.736.573 |
| Book value at year-end | 286.182 | 3.423.138 | 902.264 | 4.611.584 |

Due to the development of software intended for sale on the global market in the coming years, the development cost amounts to approximately ISK 62.5 million which was capitalized in calendar years 2012 to 2015. This is due to additions in one of the Consolidation's software product which is Tern ATC System or TAS but this software divides into several parts. The software development was completed in the second half of calendar year 2015 and are available for sale and already in use by clients. The Consolidation has assessed the recoverable amount of this intangible asset and determined that this asset has not suffered an impairment loss in the year 2020.

According to an agreement between Keflavik International Airport ohf., now Isavia ohf. and The Icelandic Defense Agency, now the Icelandic Coast Guard, signed on April 22nd, 2009, the Consolidation would take over certain NATO inventory airport facilities and equipment at Keflavik from the beginning of 2009 for the next 30 years. No fees will be charged for the usage, but the Consolidation must cover all costs of daily operations and maintenance expenses, to ensure the conditions are in accordance with the regulated standards by The International Civil Aviation Organization. On behalf of NATO inventory, the Icelandic Coast Guard has the right to use these facilities of which the usage rights are recognized proportionately over the lease term. .

## 12. Leases

The consolidated group leases property, land and other equipment for use in its operations.

| Right-of-use assets | Property | Other | Total |
|---|---|---|---|
| Recognised on initial application, 1 January 2019 | 156.959 | 24.951 | 181.910 |
| Adjustments for indexed leases | 4.112 | 0 | 4.112 |
| New or renewed leases | 47.159 | (4.839) | 42.320 |
| Depreciation | (56.937) | (4.183) | (61.120) |
| Balance at 31 December 2019 | 151.293 | 15.929 | 167.222 |
| Adjustments for indexed leases | 3.860 | 360 | 4.220 |
| New or renewed leases | 246.395 | 0 | 246.395 |
| Depreciation | (63.729) | (232) | (63.962) |
| Balance at 31 December 2020 | 337.818 | 16.056 | 353.874 |

## 12. Leases (continued)

| Amounts recognised in income statement | 2019 | 2019 |
|---|---|---|
| Depreciation expense from right-of-use assets | 63.962 | 61.120 |
| Interest expense on lease liabilities | 6.840 | 7.846 |
| Total amount recognised in income statement | 70.801 | 68.966 |
| Payment of leases for the year | 69.940 | 66.737 |
| **Lease liabilities** | | |
| Lease liabilities, long term | 274.360 | 111.548 |
| Lease liabilities, current maturities next 12 months among current liabilities | 83.727 | 58.506 |
| | 358.087 | 170.054 |

**Lease liabilities**

| Maturity analysis, undiscounted lease payments | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Not later than 1 year | 99.893 | 65.156 |
| Later than 1 year and not later than 5 years | 269.242 | 88.398 |
| Later than 5 year | 65.964 | 75.644 |
| | 435.100 | 229.199 |

## 13. The Consolidation

The Consolidated Financial Statements of Isavia ohf. consists of the parent Company and the following subsidiaries:

| | Ownership% | Nominal amount | Principal activity |
|---|---|---|---|
| **Shares in subsidiaries** | | | |
| Domavia ehf., Reykjavik | 100,00% | 500 | Real estate business |
| Duty Free Store ehf., Keflavik Airport | 100,00% | 50.000 | Retail and commerce |
| Isavia ANS ehf., Reykjavik Airport | 100,00% | 310.500 | Domestic airport operations |
| Isavia Innanlandsflugvellir ehf., Reykjavik Airport | 100,00% | 52.350 | Air traffic control services |
| Suluk ApS, Greenland | 100,00% | 1.999 | Services of air traffic controllers |
| Tern Systems ehf., Kopavogur | 100,00% | 80.000 | Software and consulting |

## 14. Bonds and other long term assets

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Bond loan, weighted average of interest rate 5,48%. | 118.562 | 154.649 |
| Current maturities | (38.719) | (38.062) |
| | 79.843 | 116.587 |

Bonds and long term assets installments are specified as follows:

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Year 2020 | | 38.062 |
| Year 2021 | 38.719 | 38.425 |
| Year 2022 | 39.111 | 38.804 |
| Year 2023 | 9.521 | 9.200 |
| Year 2024 | 9.949 | 9.614 |
| Year 2025 | 10.397 | 10.046 |
| Installments later | 10.865 | 10.499 |
| | 118.562 | 154.649 |

There is an insignificant difference between the fair value and the book value of financial assets in the management's opinion.

## 15. Inventories

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Goods for resale | 336.164 | 584.697 |
| Goods in transit | 2.548 | 17.551 |
| Allowance for old and obsolete inventory | (58.835) | (12.425) |
| | 279.877 | 589.823 |

Changes in allowance for old and obsolete inventory:

| | | |
|---|---|---|
| At the beginning of the year | (12.425) | (12.636) |
| Reversed allowance for old and obsolete inventory | (85.319) | (21.247) |
| Inventories written off | 38.909 | 21.458 |
| At year-end | (58.835) | (12.425) |
| | | |
| Insurance value of inventories | 745.200 | 725.000 |

No inventories have been pledged at year-end.

The Consolidation´s plan is to sell all of its inventories in next 12 months.

## 16. Other financial assets

**Accounts receivables**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Domestic receivables | 2.897.391 | 4.054.592 |
| Foreign receivables | 196.520 | 406.050 |
| Allowances for doubtful accounts | (2.355.974) | (2.151.079) |
| Receivables Joint Finance contract | 1.868.417 | 0 |
| | 2.606.353 | 2.309.563 |

**Aging and allowance for doubtful accounts**

Changes in the allowance for doubtful accounts:

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| At the beginning of the year | (2.151.079) | (250.684) |
| Impairment loss recognized on receivables | (204.895) | (2.020.392) |
| Amounts written off as uncollectable | 0 | 119.997 |
| At year-end | (2.355.974) | (2.151.079) |

Allowance has been made for doubtful accounts. This allowance is based on management´s estimates, previous years´ experience and economic outlook at the reporting date.

Value of allowance for doubtful accounts in the year end 2020 in accordance with IFRS 9 is following:

The Consolidation assesses the allowance for doubtful accounts based on the likelihood of default occurring any time during the life of the receivables. Accounts receivables are divided into age groups and impairment loss estimated for each age group that is based on experience of previous years, management estimates and future prospects in the client's economic environment. It is the opinion of the Consolidation's management that the carrying amount of accounts receivables and other receivables reflects their fair value.

The Consolidation is of the opinion that objective evidence of impairment is present if the information from the Consolidation or outside parties indicate that the debtor is in financial difficulties or if receivables are more than 90 days past due.

## 16. Other financial assets (continued)

On 28 March 2019, Isavia exercised its authority to ground an aircraft operated by WOW air due to unpaid user fees concerning the operation of the airline at Keflavík Airport. The authority was exercised according to paragraph 1, Article 136 of the Aviation Act No. 60/1998. According to the wording of said paragraph, earlier court precedents and the application of the authority in earlier years, the authority was exercised for all unpaid user fees of the airline. The owner of the aircraft filed an injunction before the Reykjanes District Court in an effort to overturn the grounding of the aircraft. In the end, the Court ruled that the grounding should be lifted after the owner of the aircraft had paid unpaid user fees that solely were attributable to the specific aircraft. Isavia was not accorded the opportunity to appeal the ruling to a higher court, which in the opinion of the company, is significantly objectionable in light of the interests at hand, and on previous occasions, a higher court had ruled in favour of the company. Although this ruling was voided based on legal technicalities, the opinion of the higher court remains. In light of the fact that the equivalent of a lien for the payment of unpaid user fees has disappeared due to the ruling of the Reykjanes District Court, it is seen prudent to write down the claim of ISK 2.160 million in the accounts of the consolidated group. This write-down does in no way change the opinion of the company that the ruling was wrong and that the ruling of the district court judge on the denial of a stay of the ruling was significantly objectionable. Isavia has sued the owner of the aircraft and the Treasury for damages resulting from the implementation of the injunction on the aircraft.

Analysis of aging and allowance for doubtful accounts at the balance sheet date were as follows:

| | 31.12.2020 | | | |
|---|---|---|---|---|
| | Expected loss | Gross amount | Allowance | Book value |
| Receivables not yet due | 0,5% | 528.512 | 2.599 | 525.913 |
| 1-90 days | 11,2% | 109.676 | 12.270 | 97.405 |
| 91-180 days | 30,3% | 99.435 | 30.151 | 69.285 |
| 181-270 days | 54,6% | 20.174 | 11.022 | 9.153 |
| > 271 days | 98,5% | 2.336.113 | 2.299.932 | 36.181 |
| Total | | 3.093.911 | 2.355.974 | 737.937 |

| | 31.12.2019 | | | |
|---|---|---|---|---|
| | Expected loss | Gross amount | Allowance | Book value |
| Receivables not yet due | 0,6% | 1.910.546 | 12.135 | 1.898.411 |
| 1-90 days | 3,7% | 293.309 | 10.706 | 282.603 |
| 91-180 days | 24,4% | 62.185 | 15.193 | 46.992 |
| 181-270 days | 85,7% | 100.697 | 86.306 | 14.391 |
| > 271 days | 96,8% | 2.093.906 | 2.026.739 | 67.167 |
| Total | | 4.460.642 | 2.151.079 | 2.309.563 |

**Other receivables**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Value added tax of previous years | 5.196.837 | 5.198.379 |
| Value added tax | 181.087 | 203.237 |
| Prepaid expenses | 120.929 | 122.855 |
| Capital income tax | 19.847 | 29.868 |
| Prepaid salaries | 44.914 | 45.189 |
| Other receivables | 376.733 | 369.368 |
| | 5.940.347 | 5.968.896 |

The claim of the company for value added tax of earlier years consists of unprocessed but filed value added tax returns with the Director of Internal Revenue for the period September 2016 to December 2018. The Director of Internal Revenue has doubted the appropriateness of the company servicing international aircraft at Keflavík Airport, cf. Article 12 of the Value Added Tax Act, and that it qualifies for a so-called zero rate, i.e. that it can claim a tax refund for procured goods and services and not pay out-tax. The company argues on the other hand that this important premise had been clear at the beginning of the registration of the company in the value-added-tax register at its establishment.

The Director of Internal Revenue ruled on this dispute in May 2020, and the company brought the ruling before the Taxation Reassessment Committee in July 2020. With the ruling of the committee no. 181/2020 of December 2020, the ruling of the Director of Internal Revenue of May 2020 was voided, and the Director of Internal Revenue was ordered to rule anew on the basis of the views of the company to the effect that user fees for aircraft belonged under Article 12 of the Value Added Tax Act, as the company had argued. It still remains unclear how to treat value added tax on mixed activity, an insignificant amount.

Amendments to the Value Added Tax Act No. 143/2018 remove all doubt on the authority of the company to apply the method it has used from the company's establishment. These amendments entered into force on 1 January 2019.

## 16. Other financial assets (continued)

**Cash and cash equivalents**

The Consolidation´s cash and cash equivalent consist of cash and bank balances.

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Bank balances in ISK | 2.142.503 | 3.241.164 |
| Bank balances in foreign currencies | 7.225.759 | 3.401.145 |
| Redemption accounts | 0 | 2.518.840 |
| Cash in ISK | 4.075 | 5.492 |
| | 9.372.336 | 9.166.641 |

## 17. Equity

Share capital is specified as follows:

| | Shares | Ratio | Amount |
|---|---|---|---|
| Total share capital at year-end | 9.559.063 | 100,0% | 9.559.063 |
| | 9.559.063 | 100,0% | 9.559.063 |

Each share of one ISK carries one vote. The Ministry of Finance carries the voting rights on behalf of the Icelandic Treasury. All shares have been paid in full.

**Statutory reserves**
Funds are allocated to a lawfully required reserve fund in accordance with Icelandic laws on limited companies. The payment of a lawfully required reserve fund to shareholders in the form of dividends is not permitted. According to laws on limited companies, funds must be allocated to the reserve fund until it has reached 25% of the share capital.

**Revaluation reserves**
Upon the merger of Flugfjarskipta ehf. and Isavia ohf. the properties of the aforementioned company were revalued as the market price of that company's real estate was considered to be significantly higher than the book value. The revalued price is based on the estimated sales price confirmed by the appraisers. The valuation change is recognized in a special revaluation account among equity and on income tax liability.

## 18. Long term borrowings

| | Loans from credit institutions | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| Liabilites in EUR | 40.710.213 | 30.399.800 |
| Liabilites in ISK | 7.036.199 | 5.651.098 |
| | 47.746.412 | 36.050.897 |
| Current portion of long term liabilities | (4.086.163) | (3.339.425) |
| Non-current liabilities at year-end | 43.660.249 | 32.711.473 |

Change in liabilities for the year is following:

| | | |
|---|---|---|
| Liabilities at beginning of the year | 36.050.897 | 36.760.553 |
| New long-term borrowings in the year | 8.030.202 | 0 |
| Installments for the year | (727.292) | (1.325.161) |
| Exchange rate difference and indexation | 4.392.604 | 615.506 |
| Liabilities at the end of the year | 47.746.412 | 36.050.897 |

Installments of non-current liabilities are specified as follows:

| | Loans from credit institutions | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| Installments in 2021 / 2020 | 4.086.163 | 3.339.425 |
| Installments in 2022 / 2021 | 5.780.049 | 5.171.750 |
| Installments in 2023 / 2022 | 1.900.874 | 1.432.636 |
| Installments in 2024 / 2023 | 2.205.290 | 1.698.372 |
| Installments in 2025 / 2024 | 2.610.532 | 7.868.610 |
| Installments later | 31.163.505 | 16.540.105 |
| | 47.746.412 | 36.050.897 |

## 18. Long term borrowings (continued)

So far in 2021, terms on long-term loans have been amended. Repayments in 2021 will therefore amount to ISK 457 million instead of ISK 4.086 million as at 31.12.2020.

Loans amounting to ISK 46.806,7 are subject to terms related to the equity ratio. Of this amount, loans amounting to ISK 42.661 million are also subject to terms related to the ratio of net interest-bearing debt to EBITDA. The management has negotiated with banks for the extension of loans, changes in loan terms and repayment paths. The financial terms are reviewed periodically, and at the end of 2020, the terms of the ratio of net interest-bearing debt to EBITDA were not attained. All the creditors of the company had at the end of the year formally confirmed that they would not activate the financial terms for the time being.

## 19. Deferred tax liability

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Balance at beginning of the year | 2.054.905 | 2.138.638 |
| Effects from joint taxation | 0 | (1) |
| Calculated income tax for the year | (1.751.330) | 296.882 |
| Income tax payable for the next year | (3.888) | (380.618) |
| Translation exchange difference | (22) | 5 |
| Balance at the end of the year | 299.665 | 2.054.905 |

**Deferred tax balances consist of the following account balances**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Property, plant and equipment | 2.319.987 | 2.625.169 |
| Current assets | (449.589) | (396.095) |
| Other items | (13.556) | (171.399) |
| Exchange differences | (543.300) | (2.770) |
| Effect of carry forward income tax loss | (2.242.263) | 0 |
| | (928.722) | 2.054.905 |
| Tekjuskattsinneign ekki færð í ársreikning | 1.228.387 | 0 |
| | 299.665 | 2.054.905 |

The carry-over of the tax loss of the consolidated group will, along with other items, form an income tax claim carried over at the end of the year. The carried-over claim has, however, not been entered into the accounts of the company, and the impact of the tax loss carried over is therefore lower than if the income tax claim carried over had been entered into the accounts.

**Tax loss carried forward can be used against taxable profit, as specified:**

| | |
|---|---|
| Available to the year 2030 | 11.211.317 |
| | 11.211.317 |

## 20. Other financial liabilities

**Accounts payable**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Domestic accounts payable | 1.352.620 | 1.151.839 |
| Foreign accounts payable | 277.671 | 443.342 |
| Accounts payable - Joint finance agreement | 0 | 740.898 |
| | 1.630.291 | 2.336.079 |

**Current maturities of long-term liabilities**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Loans from credit institutions | 4.086.163 | 3.339.425 |

So far in 2021, terms on long-term loans have been amended. Repayments in 2021 will therefore amount to ISK 457 million instead of ISK 4.086 million as at 31.12.2020.

## 20. Other financial liabilities (continued)

**Other current liabilities**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Value added tax, payable | 25.504 | 34.786 |
| Deferred revenue | 1.966 | 18.757 |
| Accrued additional contribution to pension fund | 293.237 | 356.284 |
| Salaries and related expenses payable | 761.696 | 996.063 |
| Accrued holiday commitment | 1.334.115 | 1.321.002 |
| Accrued interest, payable | 456.368 | 133.429 |
| Other liabilities | 34.237 | 133.182 |
| Deferred revenue | 172.590 | 172.590 |
| Unfinished construction contract | 99.161 | 18.371 |
| | 3.178.873 | 3.184.464 |

## 21. Financial risk

**Financial instruments**

The consolidated financial assets and liabilities are specified into following types of financial instruments:

| **Financial assets** | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Cash and cash equivalents | 9.372.336 | 9.166.641 |
| Financial assets that are intended to hold to maturity | 118.562 | 154.649 |
| Loans and receivables | 8.361.011 | 8.110.415 |

| **Financial liabilities** | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Other financial liabilities | 52.559.464 | 41.952.059 |

Financial assets which are intended to hold to maturity, loans and advances and other financial liabilities are measured at amortized cost with effective interest method less impairment.

**Risk management**

The Consolidation has adopted a comprehensive risk policy and there is active risk management which has the role of assessing and managing the risk factors that the Consolidation has. The risks that are under active control are market risk, counterparty risk and liquidity risk . In addition, other risks related to operations, reputation, management and other factors have been mapped and assessed on the basis of severity on the one hand and probably on the other. The Risk Committee of the Consolidation regularly meets with issues related to risk management.

**Interest rate risk**

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate changes affect the expected cash flow of assets and liabilities which bear floating interest rates.

**Sensitivity analysis**

The analysis below shows the effect of a 50 and 100 percentage point increase on net interest-bearing assets and liabilities on earnings and equity at the balance sheet date. The sensitivity analysis covers the interest-bearing assets and liabilities that carry variable interest rates and assumes that all other variables other than those considered here are fixed. The sensitivity analysis takes into account tax effects and therefore reflects the effects that come into the income statement and equity.

Effects on profit or loss and other equity are the same as change in valuation of the underlying financial instruments is not charged directly to equity. Positive amount indicates increased profits and equity. Lower interest rates would have the same effect but in the opposite direction:

| | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | 50 bps. | 100 bps. | 50 bps. | 100 bps. |
| Effects on profit or loss and other equity | (73.995) | (147.990) | (57.550) | (115.099) |

## 21. Financial risk (continued)

### Foreign currency risk

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. Foreign currency risk exposure does arise when there is a difference between assets and liabilities denominated in foreign currency.

The majority of assets of the Consolidation are in the local currency, but some of the financial assets are denominated in foreign currency. The majority of the liabilities of the Consolidation are denominated in foreign currencies. Following table details the currencies that affect the operations of the Consolidation. Rates and volatility in exhange rates are based on mid rates.

| | Year-end rate | |
|---|---|---|
| **Currency** | 2020 | 2019 |
| EUR | 156,10 | 135,83 |
| GBP | 173,55 | 159,42 |
| JPY | 1,234 | 1,116 |
| CHF | 144,38 | 125,14 |
| DKK | 20,98 | 18,18 |
| NOK | 14,93 | 13,77 |
| SEK | 15,57 | 12,99 |
| USD | 127,21 | 121,10 |
| CAD | 99,91 | 92,94 |
| HUF | 0,43 | 0,41 |

**Foreign currency risk 31.12.2020**

| | Assets | Liabilities | Net balance |
|---|---|---|---|
| EUR | 6.575.546 | 40.830.990 | (34.255.443) |
| GBP | 625.115 | 7.964 | 617.151 |
| JPY | 1.656 | 0 | 1.656 |
| CHF | 682 | 0 | 682 |
| DKK | 139.312 | 22.557 | 116.754 |
| NOK | 2.001 | 678 | 1.323 |
| SEK | 8.011 | 90.907 | (82.896) |
| USD | 92.529 | 41.128 | 51.401 |
| CAD | 868 | 0 | 868 |
| HUF | 9.104 | 3.911 | 5.193 |

**Foreign currency risk 31.12.2019**

| | Assets | Liabilities | Net balance |
|---|---|---|---|
| EUR | 3.517.539 | 30.724.727 | (27.207.188) |
| GBP | 173.596 | 13.445 | 160.151 |
| JPY | 691 | 0 | 691 |
| CHF | 2.686 | 20.054 | (17.368) |
| DKK | 70.698 | 30.418 | 40.280 |
| NOK | 346 | 0 | 346 |
| SEK | 2.056 | 24.811 | (22.755) |
| USD | 63.802 | 22.914 | 40.888 |
| CAD | 125 | 0 | 125 |
| HUF | 5.847 | 2.974 | 2.872 |

### Sensitivity analysis

The table below shows what effects 5% and 10% increase of the relevant foreign currency rate against the ISK would have on profit or loss and other equity based on the balance of assets and liabilities in the relevant currency at the reporting date. The table above details monetary assets and liabilities that are denominated in foreign currency and the sensitivity analysis apply to. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances and trade receivables. The analysis assumes that all other variables than the relevant foreign currency rate are held constant. The sensitivity analysis covers the currencies that include the most exchange rate risk. The sensitivity analysis does take into account tax effects and therefore reflects the impact on the income statement and equity. The effect on profit or loss and equity are the same as the change in valuation of underlying financial instruments in foreign currency is not in any case recognized directly in equity. Change of the ISK by 5% and 10% against the currencies below would have had the same effect but in the opposite direction.

## 21. Financial risk (continued)

| Effects on profit or loss and equity | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | 5% | 10% | 5% | 10% |
| EUR | (1.370.218) | (2.740.435) | (1.088.288) | (2.176.575) |
| GBP | 24.686 | 49.372 | 6.406 | 12.812 |
| JPY | 66 | 132 | 28 | 55 |
| CHF | 27 | 55 | (695) | (1.389) |
| DKK | 4.670 | 9.340 | 1.611 | 3.222 |
| NOK | 53 | 106 | 14 | 28 |
| SED | (3.316) | (6.632) | (910) | (1.820) |
| USD | 2.056 | 4.112 | 1.636 | 3.271 |
| CAD | 35 | 69 | 5 | 10 |
| HUF | 208 | 415 | 115 | 230 |

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the Consolidation. The Consolidation actively monitors the changes to its credit risk. A more detailed description of the Consolidation's assessment of expected loan losses due to financial assets can be found in Notes 2 (accounting policies for impairment of financial assets) and 16 (allowance for doubtful accounts). The Consolidation has no write-down on bond assets that are low amounts and the estimate of the management is that the write-down would be insignificant.

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Bonds and other long term assets | 118.562 | 154.649 |
| Accounts receivables | 2.606.353 | 2.289.892 |
| Other receivables | 5.754.658 | 5.820.523 |
| Cash and cash equivalents | 9.372.336 | 9.166.641 |
| | 17.851.909 | 17.431.705 |

The maximum risk of the Consolidation is the carrying amount itemized above.

**Liquidity risk management**

Liquidity risk is the risk that the Consolidation has difficulties to meet its financial commitments in the near future. On a regular basis the Consolidation monitors the liquidity balance, development and the effects of market environment.

| | Payable within 1 year | Payable between 1 - 4 years | Payable after 4 years | Total |
|---|---|---|---|---|
| **Liabilities 31.12.2020** | | | | |
| Non-interest bearing | 4.798.019 | 0 | 0 | 4.798.019 |
| Floating interest rates | 3.724.716 | 9.430.959 | 14.672.186 | 27.827.861 |
| Fixed interest rates | 376.479 | 3.065.786 | 16.491.319 | 19.933.584 |
| | 8.899.215 | 12.496.744 | 31.163.505 | 52.559.464 |
| **Assets 31.12.2020** | | | | |
| Non-interest bearing | 8.522.798 | 0 | 0 | 8.522.798 |
| Floating interest rates | 9.329.111 | 0 | 0 | 9.329.111 |
| | 17.851.909 | 0 | 0 | 17.851.909 |
| **Net balance 31.12.2020** | 8.952.695 | (12.496.744) | (31.163.505) | (34.707.555) |

## 21. Financial risk (continued)

| | Payable within 1 year | Payable between 1 - 4 years | Payable after 4 years | Total |
|---|---|---|---|---|
| **Liabilities 31.12.2019** | | | | |
| Non-interest bearing | 5.901.162 | 0 | 0 | 5.901.162 |
| Floating interest rates | 3.005.399 | 14.275.563 | 6.402.579 | 23.683.541 |
| Fixed interest rates | 334.026 | 1.895.805 | 10.137.526 | 12.367.356 |
| | 9.240.586 | 16.171.368 | 16.540.105 | 41.952.059 |
| **Assets 31.12.2019** | | | | |
| Non-interest bearing | 8.135.557 | 0 | 0 | 8.135.557 |
| Floating interest rates | 9.179.561 | 96.042 | 20.545 | 9.296.147 |
| | 17.315.118 | 96.042 | 20.545 | 17.431.705 |
| **Net balance 31.12.2019** | 8.074.531 | (16.075.326) | (16.519.560) | (24.520.354) |

## 22. Other issues

**Revenues of International Air Navigation Services**

On the basis of a service agreement with the Ministry of the Interior, the Consolidation offers air navigation services within the Icelandic, Greenland, and Faroese airspaces in accordance with the Icelandic Government's commitments in international agreements. For this obligation, there is a so-called Joint Financing Agreement which was signed in 1956 between 13 member countries of ICAO, The International Civil Aviation Organization. These member countries are now 24. The users of the service pay for the service in full.

**Court Proceedings**

In the year 2015 Drífa ehf. started Court proceedings against Isavia ohf. demanding compensation for alleged damages in connection with the pre-qualification process when renting commercial space in the duty free area of Leifur Eiríksson Air Terminal. A selection committee considered an offer from another bidder more advantageous. The amount of compensation claimed is ISK 1,5 billion. Isavia ohf. is on the opinion that it acted in accordance with the pre-qualification procedure and the lawsuit is without merit. The conclusion of the Landsréttur Appeal Court of 13 November 2020 was to refer the case back to the District Court.

In addition, there are several court cases that the company believes consites without merit.

## 23. Other obligations

**Operating license**

Isavia ohf. and its subsidiaries have an indefinite operating license for the operation of air navigation, airports and landing places and are subject to conditions resulting from them as they are at any given time.

The Consolidation is obliged to respect international commitments made by the Government in Iceland on the basis of international agreements relating to the Consolidation's operations.

**Service agreements**

Isavia ohf. has service agreements with the Ministry of Transport – and Municipal Affairs for five years from 2019 on the provision of air navigation and airport services, as well as a contract for construction at domestic airports. Payment for domestic services and construction is determined according to the contract for one year at a time. On the basis of the service agreement, the company provides air navigation services in international airspace, domestic airspace and the operation of airports, as well as the maintenance and development of domestic airports in accordance with government decisions at any given time.

**Insurance**

The insurance cover of Isavia ohf. applies to the consolidated group as a whole. In addition to obligatory insurance and special liability insurance for real properties and equipment, the company guarantees the operations of air traffic control and airports (in accordance with the terms of the insurance) for up to USD 1.5 billion. In addition, the aircraft of the company and equipment are insured.

The directors and officers liability is ISK 300 million.

The Company purchases insurance for employees in accordance with the terms of the collective bargaining agreement, except for the air traffic controller's license which the Company runs at its own risk.

## 24. The effect of COVID-19 pandemic on Isavia operation

On 28 February, the hazard level of the Civil Protection Unit was raised to an alarm level in the wake of the first confirmed COVID-19 infection in Iceland, followed by an increase to the highest level, the emergency level, on 6 March. On 20 March, considerable travel restrictions took effect, which meant that travellers from outside the EEA area were not admitted to the country unless they demonstrated the need for their journey. This arrested almost all air traffic to and from Keflavík Airport.

Other restrictions that took effect on 1 July meant that travellers had either to undergo a COVID-19 screening or enter a two-week quarantine. In its wake, air traffic and the number of travellers increased, whereas on 19 August, new and stricter requirements were set where travellers entering the country could choose between undergoing two COVID-19 screenings with an interval of five days in quarantine until the result of the second screening was available or undergo a 14-day quarantine from arrival to the country. This meant that traveller traffic was practically stopped again. The decrease in passenger traffic through Keflavík Airport was consequently 81% between 2019 and 2020.

This has caused a precipitous fall in the income of the consolidated Isavia group and impacted all companies within the group, whether in the operation of Keflavík Airport, the operation of air traffic control, the Duty Free Store or the operation of the domestic airport system. Total operating revenue declined by ISK 23,7 billion between 2019 and 2020.

This decline in revenue was met through extensive efficiency measures and cost-cutting, including staff lay-offs, terminations, redundancies due to age and reductions in hours of work. This led to a decrease in the average number of staff by 21% between the years 2019 and 2020.
Amongst other cost-cutting measures, the general cost of operation was kept to a minimum and maintenance was postponed, although bearing the longer-term interests of the company in mind as well as its ability to receive passengers and air traffic when travel restrictions are lifted.

The total loss in 2020 for this reason amounted to more than ISK 13,2 billion compared to a profit of ISK 1,2 billion in 2019.

The owner of the company increased its share capital by ISK 4 billion in June 2020 in support of the investment plans of the company, without which investment in the infrastructure of the company would inevitably have been halted.
At the beginning of 2021, it was approved that the owner of the company would additionally increase its share capital by ISK 15 billion to support the operation of the company in wake of the pandemic. This substantially strengthens the operational ability of the company and provides it with the necessary room to manoeuvre in operations and the ability to continue its infrastructure investment in Keflavík Airport.
Isavia has reached agreement with the creditors of the company on loan terms and the rescheduling of repayments which provides the company with increased flexibility in operations and strengthens its ability to continue to operate.

The plans of the company for 2021 project a considerable loss during the year and that a nadir was reached in 2020 with an expected turnaround in future years when travel resumes.

## 25. Events after the reporting period

There are no subsequent  to be disclosed.

## 26. Related parties

Related parties are those parties which have direct or indirect influence of the Company or have the power to control its financial and operating policies. The Consolidation's related parties include: Key executives, close family members of key executives, and companies in which key executives or close family members control or have significant influence. Parent companies and companies where the parent group controls or has a significant influence are also considered related parties. Isavia ohf. is a government owned private limited Consolidation and partial exemption is provided from the disclosure requirements for government-related entities in the revised version of IAS 24.

Disclosures regarding salaries for the Board of Directors and Managing Director is explained in note no. 6. Sales of goods and service to key management personnel and related parties are immaterial.

## 27. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on March 11, 2021.

## 28. Consolidated ratios

| From Statement of Comprehensive Income: | 2020 | 2019 |
|---|---|---|
| **Profitability** | | |
| Earnings before interests, taxes, depreciation and amortisation (EBITDA) | (6.136.698) | 6.775.436 |
| a) Contribution margin on operation | (41,64%) | 17,62% |
| b) Profit margin on operating revenue | (89,42%) | 3,12% |
| c) Earning per share (EPS) | (1,38) | 0,21 |
| d) Return on equity | (41,36%) | 3,34% |

a) EBITDA/total revenue
b) Net income/total revenue
c) Earnings per share (EPS)
d) Net income/average equity

| From Balance sheet: | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Activity ratios** | | |
| e) Investment in inventories | 0,02 | 0,02 |
| f) Rate of return on assets | 0,18 | 0,48 |
| g) Inventory turnover | 3,92 | 10,13 |
| h) Receivables turnover | 6,00 | 9,70 |

e) Inventory/revenues
g) Cost of goods sold/average inventory
f) Net income/average total assets
h) Reveneus/average accounts receivables

| | | |
|---|---|---|
| **Liquidity ratios** | | |
| i) Quick or acid-test ratio | 2,00 | 1,88 |
| j) Current ratio | 2,03 | 1,94 |
| k) Net Interest Bearing Debts/EBITDA | (6,31) | 3,99 |

i) (Current assets - inventories)/average total assets
j) Current assets/current liabilities

| | | |
|---|---|---|
| **Coverage ratios** | | |
| l) Equity ratio | 33,87% | 45,22% |
| m) Internal value of shares | 2,85 | 6,52 |

l) Shareholders equity/total assets
m) Shareholders equity/capital stock

| From Cash flow: | 2020 | 2019 |
|---|---|---|
| n) Net cash debt coverage | (0,15) | 0,20 |
| o) Quality of sales | 0,60 | 7,53 |
| p) Quality of net profit | 0,71 | 3,71 |

n) Cash flow from operat./Total liabilities
o) Paid in revenue/stated revenue
p) Cash flow from operat./net profit

| Operating expenses as percentage of revenues | 2020 | 2019 |
|---|---|---|
| Cost of goods sold/income from retail division | 11,58% | 16,66% |
| Salaries and related expenses/operating revenues | 99,44% | 46,91% |
| Administrative expenses/operating revenues | 2,36% | 1,41% |
| Other operating expenses/operating revenues | 28,26% | 13,00% |
| Depreciation and amortization/operating revenue | 26,58% | 10,06% |
| **Operating expenses/operating revenues** | 168,22% | 88,03% |

## 29. Segment reporting

Segment information are disclosed on basis of organizational structure and internal management information. January 1st 2020 was made a split of Isavia ohf where segments regardint Air navigation was moved to Isavia ANS ehf. and segment regarding domestic airports were moved to Isavia Innanlandsflugvalla ehf. Segment are therefore different this year regarding these changes. The majority of business for Isavia ANS ehf. consists of service to air carriers on the basis of a Joint Finance Agreement. Isavia Innanlandsflugvellir ehf. are the operation of airports and airport control towers for domestic flights. Keflavík Airport is the operation of Keflavík International Airport and control tower in Keflavík in addition to Leifur Eiríksson Air Terminal. In note 2 there are information regarding each segment.

The performance of the Domestic airport is to a large extent based on a service agreement between the government and Isavia ohf. The performance in the segment report does not take into account Isavia' s investments in non-current assets that are used for the operation of Domestic airports. Since 2011, the accumulated operating profit before financial income and expenses has been ISK 107,2 million, while the estimated accumulated cost of Isavia for the commitment amounts to ISK 467,2 million. Therefore, operating profit from the operation of the Domestic Airports in the years of 2011 – 2018 is considerably too low to cover the cost of capital from the investments in the current assets. from year 2020 the operation of airports and airport control towers for domestic flights ar separated in subsidiarie. Added information in the segment reporting reflect those changes. The segment report shows key figures for subsidiaries from year 2020 but last year the segment reporting was segments from the parent company.

Within the income of segments are lease income that amounts ISK 1.840 million (2019: about 7.717,9 million) which fall within the scope of IFRS 16 Leases. Other revenue specified above are within the scope of IFRS 15 Revenue from contracts with customers. A more detailed description of the nature of the income and the timing of the Consolidation's revenue can be found in note 2.

### Segment information year 2020

| | Isavia ANS ehf. | Isavia Innanlands-flugvellir ehf. | Isavia ohf. | Fríhöfnin ehf. | Other subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | Air-navigation | Domestic Airports | Keflavik Airport | | | | |
| **Revenue:** | | | | | | | |
| External revenue | 5.975.139 | 2.127.693 | 3.063.881 | 3.428.433 | 141.575 | | 14.736.721 |
| Inter-segment revenue | 682.299 | 27.822 | 1.644.126 | 0 | 945.474 | (3.299.722) | 0 |
| Total revenue | 6.657.438 | 2.155.516 | 4.708.008 | 3.428.433 | 1.087.049 | (3.299.722) | 14.736.721 |
| **Income statement:** | | | | | | | |
| Operating profit | 261.369 | (378.808) | (9.372.192) | (606.391) | 57.474 | (14.977) | (10.053.525) |
| Net financial income / (expenses) | (96.995) | (65.182) | (4.725.776) | (34.492) | 28.107 | 18.969 | (4.875.371) |
| Profit before taxes | 164.374 | (443.990) | (14.097.969) | (640.884) | 85.581 | 3.992 | (14.928.895) |
| Profit for the year | 131.499 | (355.192) | (12.420.785) | (604.754) | 68.472 | 3.194 | (13.177.565) |
| **Balance sheet:** | | | | | | | |
| Non-current assets | 4.742.169 | 1.361.239 | 61.492.295 | 509.175 | 103.975 | (5.969.592) | 62.239.260 |
| Other assets unallocated to segments | 3.138.366 | 1.122.535 | 15.820.389 | 751.685 | 387.700 | (2.983.043) | 18.237.633 |
| Total assets | 7.880.535 | 2.483.774 | 77.312.684 | 1.260.860 | 491.675 | (8.952.635) | 80.476.893 |
| Total liabilities | 7.247.222 | 2.390.153 | 50.685.133 | 617.245 | 297.851 | (8.020.064) | 53.217.540 |
| Equity | 633.313 | 93.621 | 26.627.551 | 643.615 | 193.824 | (932.571) | 27.259.353 |
| **Other information:** | | | | | | | |
| Capital additions | 598.072 | 48.602 | 2.721.144 | 8.921 | 3.832 | | 3.380.571 |
| Depreciation and amortization | 338.806 | 126.634 | 3.310.475 | 255.823 | 37.910 | (152.821) | 3.916.827 |

## 29. Segment reporting (continued)

Segment information are disclosed on basis of organizational structure and internal management information. Segment are divided into three operational components, while the support divisions and subsidiaries are included in others. The majority of Air Navigation Division consists of service to air carriers on the basis of a Joint Finance Agreement. Domestic systems are the operation of airports and airport control towers for domestic flights. Keflavík Airport is the operation of Keflavík International Airport and control tower in Keflavík in addition to Leifur Eiríksson Air Terminal.

The performance of the Domestic airport is to a large extent based on a service agreement between the government and Isavia ohf. The performance in the segment report does not take into account Isavia' s investments in non-current assets that are used for the operation of Domestic airports. Since 2011, the accumulated operating profit before financial income and expenses has been ISK 107,2 million, while the estimated accumulated cost of Isavia for the commitment amounts to ISK 467,2 million. Therefore, operating profit from the operation of the Domestic Airports in the years of 2011 – 2018 is considerably too low to cover the cost of capital from the investments in the current assets.

| **Segment information year 2019** | Air-navigation | Domestic Airports | Keflavik Airport | Duty Free Store | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Revenue:** | | | | | | | |
| External revenue | 7.191.746 | 2.514.531 | 15.331.579 | 13.225.869 | 190.242 | | 38.453.968 |
| Inter-segment revenue | 971.202 | 36.435 | 4.517.505 | | 968.162 | (6.493.304) | 0 |
| Total revenue | 8.162.949 | 2.550.966 | 19.849.084 | 13.225.869 | 1.158.404 | (6.493.304) | 38.453.968 |
| **Income statement:** | | | | | | | |
| Operating profit | 444.249 | -3.149 | 2.333.290 | 390.285 | (258.519) | | 2.906.155 |
| Net financial income / (expenses) | | | | | | | (1.410.389) |
| Profit before taxes | | | | | | | 1.495.766 |
| Profit for the year | | | | | | | 1.198.885 |
| **Balance sheet:** | | | | | | | |
| Non-current assets | 4.523.663 | 1.439.513 | 55.228.899 | 295.695 | 1.648.677 | (566.470) | 62.569.978 |
| Other assets unallocated to segments | | | | | | | 18.072.985 |
| Total assets | | | | | | | 80.642.963 |
| Total liabilities | | | | | | | 44.177.018 |
| **Other information:** | | | | | | | |
| Capital additions | 656.218 | 169.617 | 3.090.041 | 26.201 | 4.506 | | 3.946.582 |
| Depreciation and amortization | 364.395 | 122.405 | 3.174.357 | 106.126 | 101.998 | | 3.869.281 |

# Apendix I Statement of Governance

The governance of Isavia is based on Act No. 2/1995 on Private Limited Companies, the general ownership policy of the state of August 2012, the Articles of Association of the company and the Board's rules of operation. In further support of its governance, the company has regard to guidelines on corporate governance issued by the Icelandic Chamber of Commerce, the SA Confederation of Icelandic Enterprise and Nasdaq OMX Iceland. A statement of governance is available on the public website of Isavia.

## The structure of governance

Isavia is a public limited share company owned by the state. Act No. 153/2009 on the merger of the public limited share companies Flugstoðir and Keflavíkurflugvöllur applies to the company, as does Act No. 76/2008 on the Establishment of a Public Limited Company for the Operation of Keflavík Airport, Act No. 102/2006 on the Establishment of a Limited Share Company on Air Traffic Control Services and Airport Operation of the Civil Aviation Authority and the Aviation Act No. 60/1998.

The Board of the company has, in its activity, regard to guidelines on governance and observes them in all important principles, even if the company is not obligated to follow such guidelines by law. Two subcommittees operate under the Board of the company, the audit committee and the emoluments committee. See further on the role of the subcommittees below in the section Subcommittees of the Board.

## Internal supervision and risk management

The Board has presented a comprehensive risk policy for the company and identified the main risk components in its operations. The Board of Isavia has approved the risk policy of the company. The risk policy covers the parent company as well as its subsidiaries. According to the risk policy, the comprehensive risk management is intended to ensure that risk is defined, that there is a co-ordinated process in place to handle risk, that the process is reviewed regularly and that the provision of information is periodic and describes the assessment of risk and risk-taking.

The risk committee is in place and has the authority of the Board to determine, inter alia, the extent and nature of risk as well as profitability analysis for projects and tasks that can have a significant impact on the operation and assets of the company. The risk committee is composed of the CEO, the Deputy CEO as well as the CFO and Director of Human Resources.

PricewaterhouseCoopers ehf. manages the internal auditing of the company and evaluates risk assessment, supervision methods and governance with systematic methods and thereby helps the company attain its objectives. The internal audit unit is hired by the Board, operates independently and does not make decisions related to the daily operation of the company.

Directors are responsible for highlighting, defining and assessing risk in their areas in addition to participating in the appropriate management of risk.

## The Board

The Board consists of five members and five alternates elected at a shareholders meeting for a term of one year at a time. Board members are nominated to the Board by the Minister of Finance and Economic Affairs. All Board members are viewed as independent, as understood in the "Guidelines on Company Governance".

## The appointment of the Isavia Board 2019–2020

Mr Orri Hauksson, born 1971, mechanical engineer, MBA, Managing Director of Síminn. Board member since 1979.

Mr Matthías Imsland, born 1974, political scientist, investor. Board member since 2014. Vice-chairman of the Board 2014–2018.

Ms Eva Pandora Baldursdóttir, born 1990, degree in Business Administration, analyst with the Regional Institute, Board member since 2018.

Ms Nanna Margrét Gunnlaugsdóttir, born 1978, degree in Business Administration, MBA, investment manager of Hafblik investment company. Board member since 2018.

Mr Valdimar Halldórsson, born 1972, degree in Economics and MSc in Business Administration. Since 2018, he has worked for and been one of the owners of Norðursigling hf. in Húsavík. Board member since 2018.

## Board subcommittees

The audit committee consists of three members, one of which is independent of the company, and two Board members. The main role of the audit committee is assessing the audit environment of the company and its subsidiaries, analysing the efficacy of internal auditing, supervising the implementation of auditing and proposing a choice of an outside auditor in co-operation with the State Auditor's Office pursuant to Article 7 of Act Bo. 46/2016 on the State Auditor and the Audit of State Accounts. The committee evaluates the independence of an auditor, the efficacy of risk policy, risk-taking and risk management and ensures the compliance with laws and regulations in force.

The emoluments committee consists of two Board members. The main tasks of the emoluments committee is to prepare the annual draft of an emoluments policy to be placed before the Annual General Meeting of the company, prepare proposals for the Annual General Meeting on emoluments of Board members and prepare proposals for the Board on criteria for pay and other emoluments of the CEO as well as managers of subsidiaries. The emoluments committee supervises the implementation of the emoluments policy and that emoluments are in concert with laws, regulations and guidelines of good practice.

# Apendix I Statement of Governance

## CEO, Deputy CEO and Division Directors

The CEO is Mr Sveinbjörn Indriðason. He is in charge of the daily operations of the company in accordance with the policy and directives of the Board. Daily operations do not cover extraordinary and major actions. He has the decision-making powers for all operational and financial matters of the company and supervises its assets.

Ms Elín Árnadóttir is the Deputy CEO. The Deputy CEO is in charge of the office of the CEO that deals with the joint tasks of the company as well as ensures that good administration practice is being complied with.

The management committee consists of the CEO, the Deputy CEO and Division Directors. The management committee had six members at the end of the year.

Mr Sveinbjörn Indriðason, born 1972, is an economics graduate from the University of Iceland in 1998. Mr Indriðason was the Director of the Financial Division from 2013 until June 2019, when he was appointed CEO.

Ms Elín Árnadóttir, born in 1971, earned a business administration degree from the University of Iceland in 1996. She has been the manager and CFO of the predecessors of Isavia and associated companies. She has been the Deputy CEO of Isavia since 2013.

Ms Anna Björk Bjarnadóttir, born in 1967, has a degree in sport sciences from NIH, Oslo and the Hungarian University of Physical Education (HUPE), as well as a degree in leadership and marketing from TDC, DIEU/Mannaz and Wharton Business School. She was hired as the manager of services and operations in 2020.

Mr Guðmundur Daði Rúnarsson, born in 1979, took an MSc degree in engineering management at the Technical University of Denmark in 2010. He was hired as the division manager of the operations department of the Leifur Eiríksson Airport Facility in 2011, later the deputy manager of the Leifur Eiríksson Airport Facility and, following an organisational restructuring in 2016, the manager of technology and physical assets of Keflavík Airport. In 2020, he assumed the post of Director of Business and Development.

Ms Ingibjörg Arnarsdóttir, born in 1971, holds a cand.oecon. degree in economics and business administration from the University of Iceland, with a focus on auditing, and a master's degree in finance from Cass Business School / City University in London. She assumed the post of Director of Finance and Human Resources in 2020.

Ms Ragnheiður Hauksdóttir, born in 1977, holds a degree in business administration from the University of Iceland and Copenhagen Business School. She was recruited to the post of Chief Information Officer in 2020.

**The managers of Isavia's subsidiaries.**

Mr Kjartan Briem, born in 1970, has an M.Sc. degree in electrical engineering from Danmarks Tekniske Universitet (DTU) with emphasis on telecommunications. He became the manager of Isavia ANS in 2021.

Ms Sigrún Björk Jakobsdóttir, born in 1966, has a degree in hotel management from the International Hotel and Tourism Training Institute in Switzerland. She became manager of Isavia Innanlandsflugvellir ehf. (Isavia's domestic airports) in 2018.

Ms Þorgerður Þráinsdóttir, born in 1975, has a cand.psych. degree in psychology from the University of Iceland. She became the manager of the Duty Free Store in 2014.

## Compliance with laws and regulations

The company has not violated laws and regulations by judgment or administrative ruling in 2020.

## The arrangement of interactions between the shareholder and the Board

One shareholder, the Icelandic state, owns all the shares of the company, and the shareholder power is vested with the Minister of Finance and Economic Affairs. Shareholder meetings are the main arena for the provision of information to the shareholder, who has the highest power in matters of the company.

# Apendix II Non-financial disclosure

## The business model

subsidiaries at the end of 2020: Isavia Innanlandsflugvellir ehf. (Domestic airports) that maintains domestic airports for scheduled flights and landing fields in Iceland, Fríhöfnin ehf. (Duty Free Store) that operates four duty free shops in Flugstöð Leifs Eiríkssonar (Airport Terminal), Isavia ANS ehf. that operates air traffic control domestically and for international air traffic in the North Atlantic area and Domavia ehf., a company not in operation.

Isavia operates and maintains the infrastructure on which Icelandic aviation is based, its connection with the rest of the world and aviation between continents. The company's activity is therefore vital for the nation and the economy. Wide emphasis is placed with those economic actors that rely on the services of the company and are impacted by it.

Isavia operates in an international competitive market where competition between airports is keen. The market environment has undergone profound change in recent years, with no end in sight. Greater emphasis has been placed on sustainability in airport operations, and Isavia has made a determined effort in recent years to ensure future sustainability. The company sees great opportunities in Iceland's future competitive advantage, based on the environment and sustainability. The company's policy reflects these views.

## Sustainability and community responsibility

The consolidated Isavia group pursues a policy of social responsibility and has supported the UN Global Compact of 2016. The company thereby commits itself to pursue a policy and practice in pursuit of the ten criteria of the United Nations on human rights, labour, the environment and anti-corruption. Isavia supports the UN Global Goals on sustainable development and works on attaining its objectives. The company's policy of social responsibility emphasises a balance between the economy, the environment and the community, with sustainability as a guideline.

The codes of conduct for the suppliers of Isavia and its subsidiaries are set in accordance with the ten criteria of the UN Global Compact. Suppliers of the company are required to meet the guidelines as a minimum and they must impose the same demands on their suppliers. A suspicion of the infraction of these guidelines needs to be reported to Isavia. If requested, suppliers need to confirm that they adhere to the guidelines. The contracts of the company contain provisions for a ban on artificial contracting and stipulates that a hiring relationship shall be the main rule in interactions between the staff and contracting vendor. This is done to ensure that all wage-related payments, whatever their name, be paid and that wage agreements are adhered to.

## Environmental issues

Isavia uses the guideline that adverse environmental impacts be kept to a minimum, in concert and co-operation with economic actors. The company laid down an environmental policy in 2015 and has diligently worked towards the goal of that policy with an environmental and air quality action plan. The plan presents a number of measures intended to reduce the adverse impact of Isavia's activity. The plan applies to the end of 2021.

Work is underway to establish an environmental governance system according to the ISO14001 standard of 2020 and will be completed before the end of the first quarter of 2021. Keflavík Airport participates in the Airport Carbon Accreditation (ACA) System of the Airports Council International (ACI).

The use of fuel is the most important environmental factor in Isavia's operations. The use of fuel in the company's operations is closely monitored, and work is ongoing to reduce it as much as possible. The largest part of fuel use is for servicing and maintenance of airport runways and tarmacs. Isavia has carbon-offset its fuel use for the past three years through the Votlendissjóður (Wetland Fund) and Kolviður (Carbon Offset Fund).

## Human resources

Isavia endeavours to be a sought-after workplace, and the company emphasises a good work environment and staff enjoyment. The criteria of Isavia are service, co-operation and security and are reflected in its points of emphasis in human resource issues.

Isavia has for a number of years diligently supported gender equality and first received an equal-pay certification in 2018 that is confirmed by the Centre for Gender Equality. Isavia's equal-pay certification is reviewed annually by an outside examiner, the latest being in September 2020. There is no unexplained gender disparity in pay.

Isavia pursues an equality policy aimed at improving work satisfaction and morale. The purpose of the equality policy is to ensure equality in full and equal rights of both genders.

Isavia has set rules of ethics that apply to all staff and management of Isavia and are included as part of hiring agreements of staff.

# Apendix II Non-financial disclosure

## Human resources (continued)

Moreover, there is a response plan against persecution and other mental harassment. The response plan deals with the work environment, health standards and workplace security in addition to measures against persecution, sexual harassment, gender-based harassment and workplace violence.

Staff members harbouring information or documents on the violation of laws or other reprehensible activity in the operations of the consolidated group must report it. Isavia ensures certain protection for staff members who inform violations of laws or other reprehensible activity in its operations, pursuant to Act No. 40/2020 on Protection of Informants.

## Risk management

Isavia adheres to a formal process of risk management to reduce and manage financial and non-financial risk of the company. The process seeks to map the main risk elements of the company and apply appropriate measures to mitigate such undesirable events. The management manages the risk of the company in accordance with the risk-tolerance of Isavia as set by the Board. Risk tolerance, i.e. the limits of acceptable deviation from goals, is defined in policy documents, work rules, manuals and regulations pertaining to the company.

## Key criteria

In order to determine the most important factors in the field of sustainability, the major economic actors were interviewed inside and outside the company to assess which issues they consider most important in their co-operation with the company and how one should meet their expectations on the dissemination of information. The economic actors of the company have been defined into five groups, i.e. clients, staff, public authorities, suppliers and the community.

The company diligently works on all the aspects considered most important for its economic actors. The most important factors were: safety and workplace security, purchases and the value chain, carbon footprint and air quality, community interaction and development, a financially sustainable operation, a service of value and efficacy, human resources, sound protection, digital technology and automation.

In addition to viewing the remarks of outside actors, the setting of goals in 2020 had regard to the company's policy and its various commitments. The goals are related to nine of seventeen global goals. The work took place with representatives of the staff from all the areas of the company. The proposals of the working parties were forwarded to the CEO and the Executive Directors for approval and for an introduction to the Board.

Goal 1: Steadily reduce the number of accidents in Isavia's workplace. Accidents reported declined between years from 65 to 39, of which serious accidents (leading to absences) declined from 19 to 4.

Goal 2: Ensure the equal participation of genders in management positions before 2025. Management tier one: 33%/67%; tier two: 61%/39%; tier three: 81%/19%.

Goal 3: Draw up a comprehensive approach to risk management so as to ensure that it comprises community responsibility. Work has begun on the risk of climate change on the infrastructure of Keflavík Airport.

Goal 4: Improve the efficacy of surveying Isavia's procurement. Reference is made to ethics rules and community responsibility in all tender and contract documents of the consolidated group. Moreover, work is under way to have all suppliers of the company sign a supplier code of ethics; more than 50% of registered suppliers have already signed.

Goal 5: The share of sorted waste should be 40% in 2020, 55% in 2025 and 70% in 2030, compared to 2015. Waste disposal declined by 34% by the end of 2020.

Goal 6: The emission of greenhouse gases should decline by 40% by 2020, 50% by 2025 and 60% by 2030, compared to 2015. Emission declined by 34% by the end of 2020.

Goal 7: Determined and co-ordinated interaction with the external actors of the company. Joint policy formation with the four municipalities in the Suðurnes area, Kadeco and the Association of the Suðurnes Municipalities is well underway, and co-operative projects are beginning. A co-operative platform has been established with selected economic actors at Keflavík Airport to work on joint projects with the aim of sustainability.

Goal 8: Improve the consciousness of the importance of community responsibility of the company. The Board and the management have been introduced to this topic.

Goal 9: Diligently work towards a good experience of travellers through Keflavík Airport. Changes were made in the organisational chart to improve service to travellers.

# Apendix II Non-financial disclosure

## Key criteria (continued)

The annual and community report of the Isavia group is issued according to the international standard of the Global Reporting Initiative, including its special provisions regarding airports. The report deals with the points of emphasis, goals, key criteria and achievements of Isavia in its quest for increased sustainability. The report deals with issues of the environment, the community and the economy in detail. Furthermore, Isavia presents an annual and community report of the company each year as a progress report to the UN Global Compact and Global Reporting Initiative. The report is issued for the fifth time in this manner.

Further information on the non-financial issues of the company may be found in the Isavia annual and community report at: isavia.is/arsskyrsla 2020.